Answers to Monetary Policy Practice Stuff from class:

1. A
2. B
3. D
4. E
5. D
6. D
7. C
8. B
9. D
10. D
11. A
12. C
13. E
14. A
15. B
16. D
17. C
18. D
19. B
20. B

FREE RESPONSE

1. a)Sell bonds, raise the reserve requirement, raise the discount rate
   b) Nominal interest on the Y, QM on the X and a vertical MS line shifted LEFT!
   c) nominal interest rates increase, Investment decreases, price level decreases, output decreases

2. a) short term interest rates bank charge each other
   b) buy bonds
   c) $50 million
   d) real interest rates decrease because nominal decrease and inflation rises

3. a) 50%
   b) i. $2000, ii. No change to demand deposits immediately. Fed puts money in Excess reserves
   c) $4000
   d) i. no change, ii. Increase by 2,500 (50% of the $5,000)